Investment Managers

Ad uso esclusivo di investitori professionali.

Surfare le onde del credito europeo

Ismael Lecanu

Head of Europe IG & HY Credit AXA IM

21 ottobre 2021

The fixed income market today

Three key challenges and opportunities facing fixed income investors

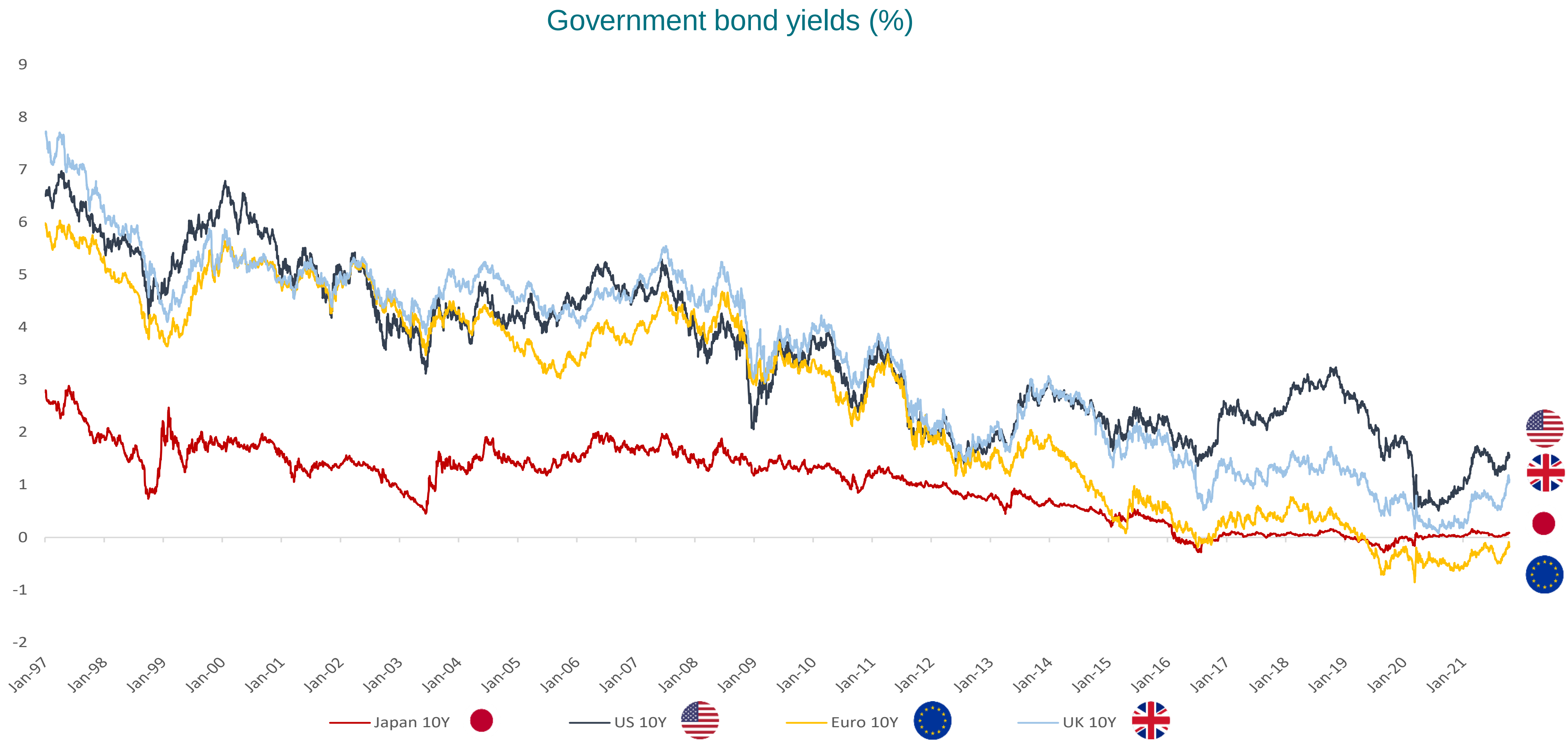
1 Rates might not stay ‘lower, for much longer’

2 Credit markets continue to offer a premium, but they are not cheap

3 More risk is being rewarded with less yield

Yields continue to stay at historical lows…

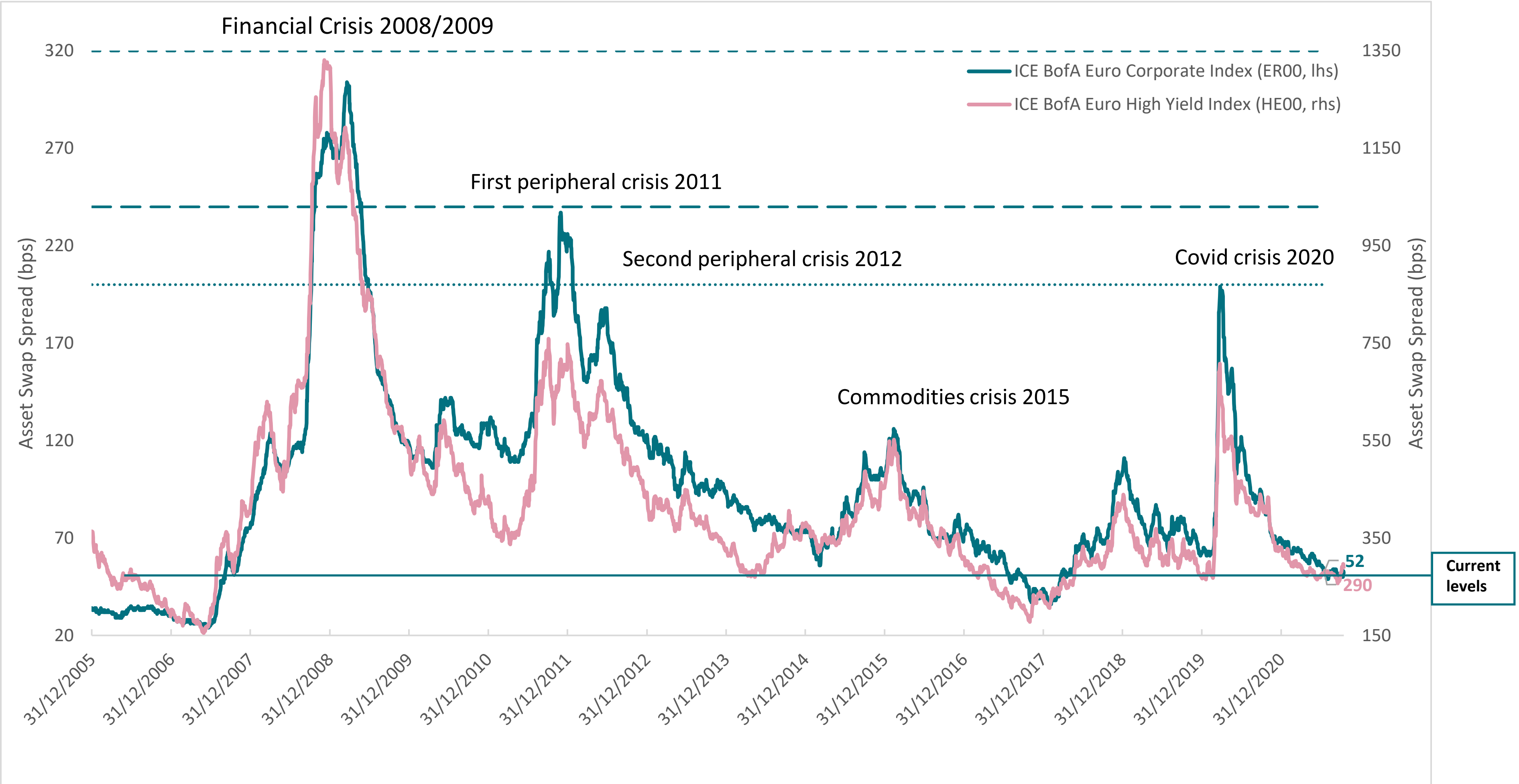
But have started to rise recently



Source: AXA IM, Bloomberg, Bank of America / Merrill Lynch, 15/10/2021. Figures in local currency. Past performance is not a guide to future performance.

Euro Credit Universe

Historical value on the Euro Credit Market both IG and HY



Source : AXA IM, Bloomberg as of 15/10/2021

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Euro Credit Universe

Zooming in a world of Quantitative Easing, same conclusions?

Euro Investment Grade Market

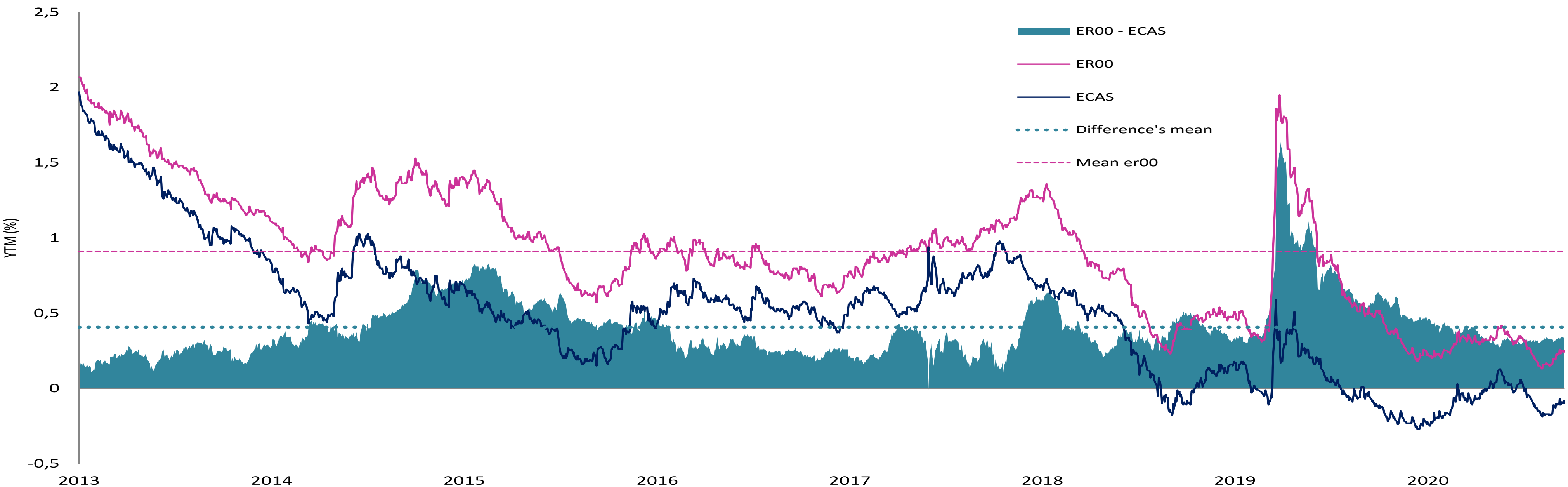
Euro High Yield Market

- The 22th January of 2015, ECB announced it will buy bonds issued by euro area central governments, agencies and European institutions in the secondary market (€60 billion per month)
- Purchases were intended to be carried out until September (at least) 2016…we know what’s followed with the inclusion of the Corporates bonds in March of the same year
- We are definitively in a QE world, with an implicit insurance from Central banks leading to mechanically lower risk premia.

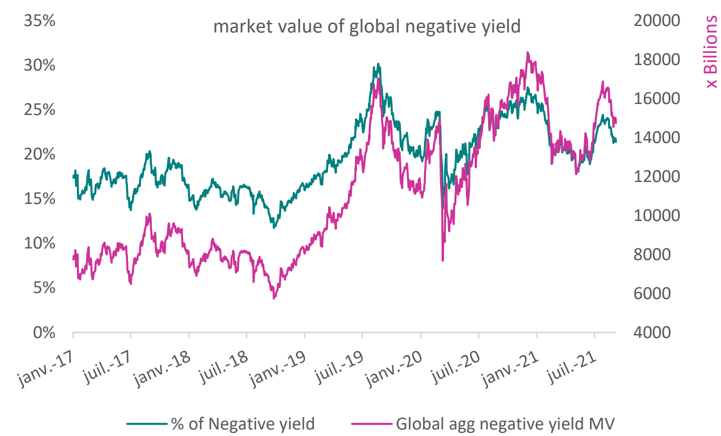
Source: AXA IM, Bloomberg, BofAML Indices as of 15 October 2021. For illustrative purpose only.

Long-term Yield To Maturity

Credit vs. Govies spread



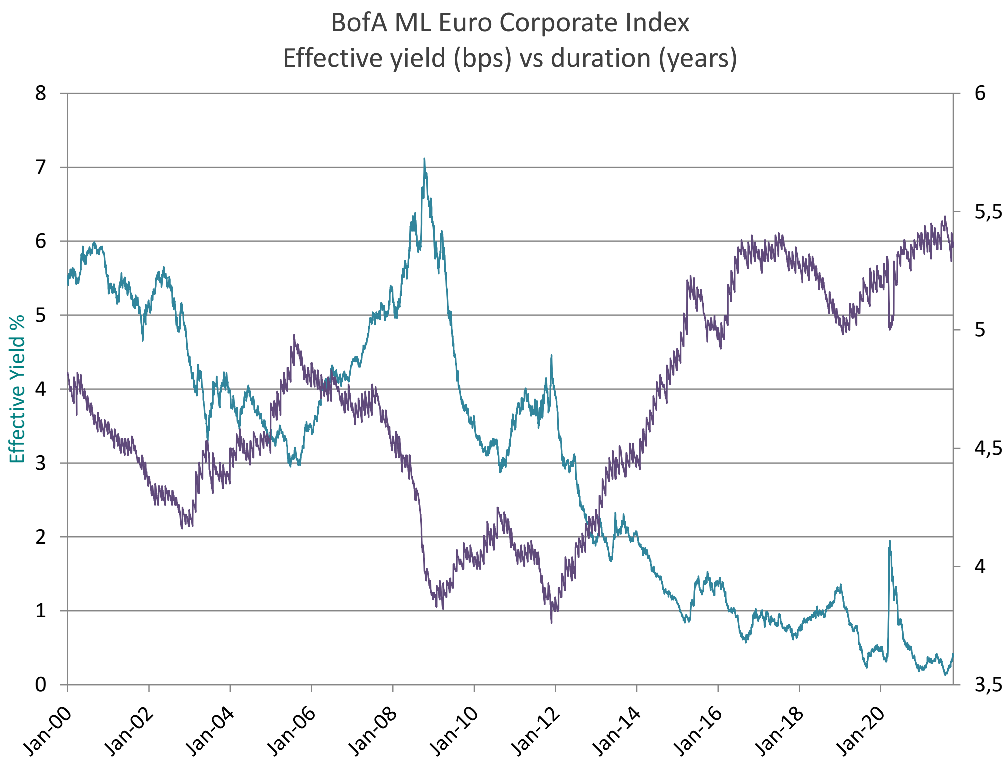
	Yield as of 31/12/2019	Yield as of 31/12/2020	Yield as of 15/06/2021	Yield as of 15/09/2021	Duration	spread per unit of risk
Euro Governments Bonds (ECAS)	0,17%	-0,23%	-0,01%	-0,08%	8,12	0,15
Euro Credit IG (ER00)	0,51%	0,23%	0,31%	0,25%	5,32	1,40
Euro Credit HY (HE00)	2,63%	2,82%	2,30%	2,26%	3,30	6,08

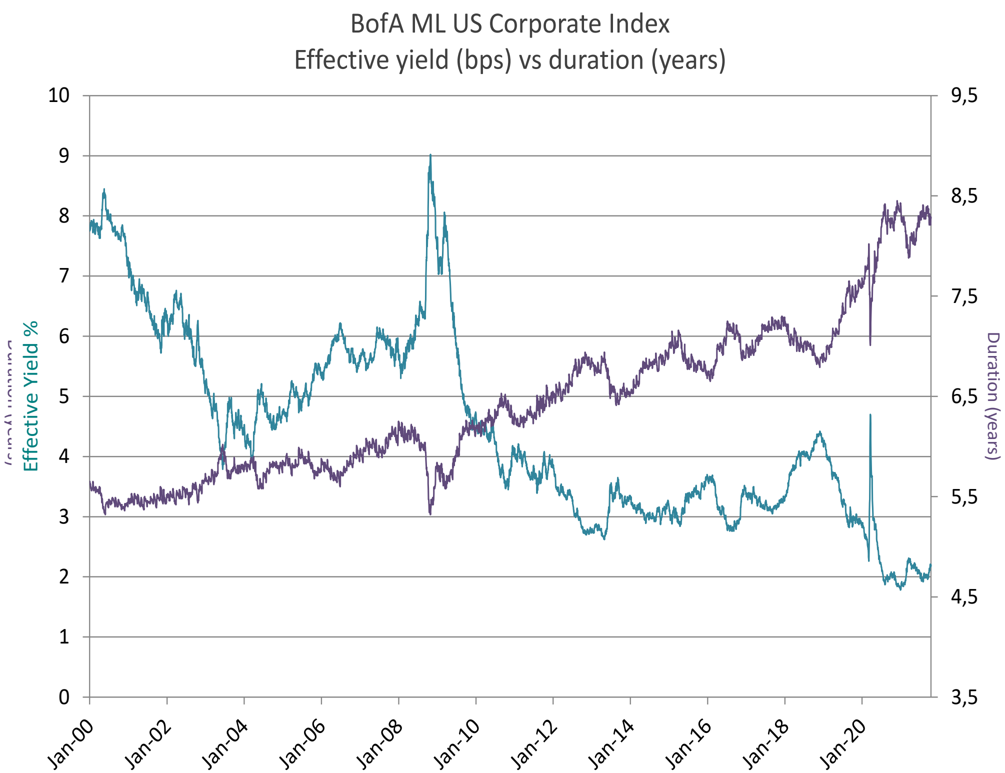


Source : AXA IM, Bloomberg as of 15/09/2021

Investors are taking more risk for less yield

Risk is concentrated through duration extension in fixed income benchmarks





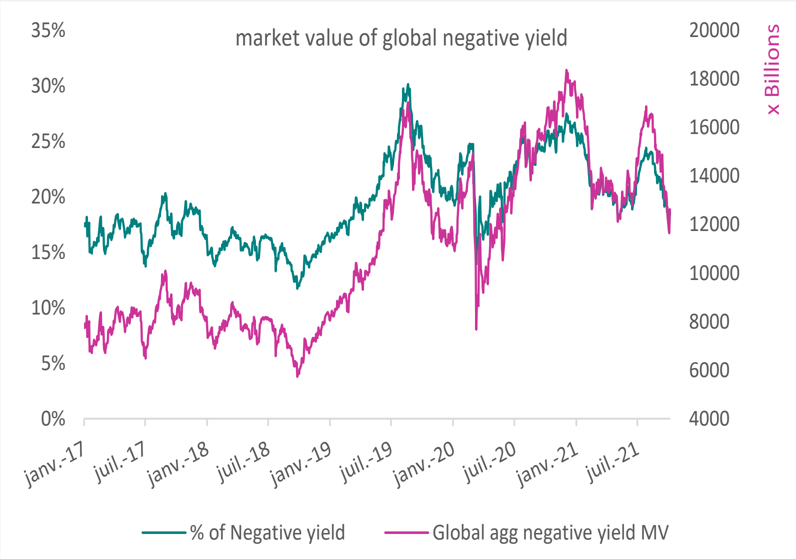
Source: AXA IM, BofA Merrill Lynch, 15/10/2021.
Past performance is not a guide to future performance.

Valuation

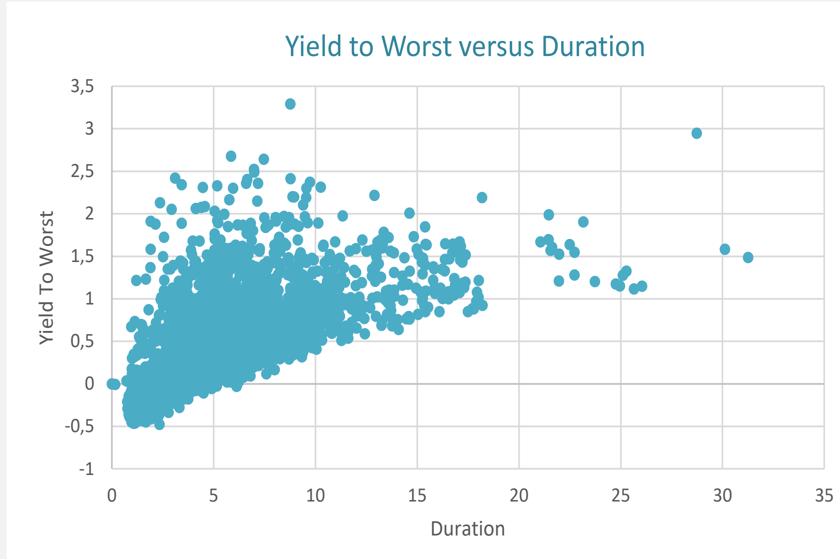
Search for yield should remain supportive for Euro Investment Grade

- Global negative yielding assets have declined thanks to the “global interest rates increase”, but remained close to 12 Tn USD
- The credit investment still looks attractive in that context

Negative Yield in the Global Aggregate World



Dispersion across the Euro Investment Grade Market



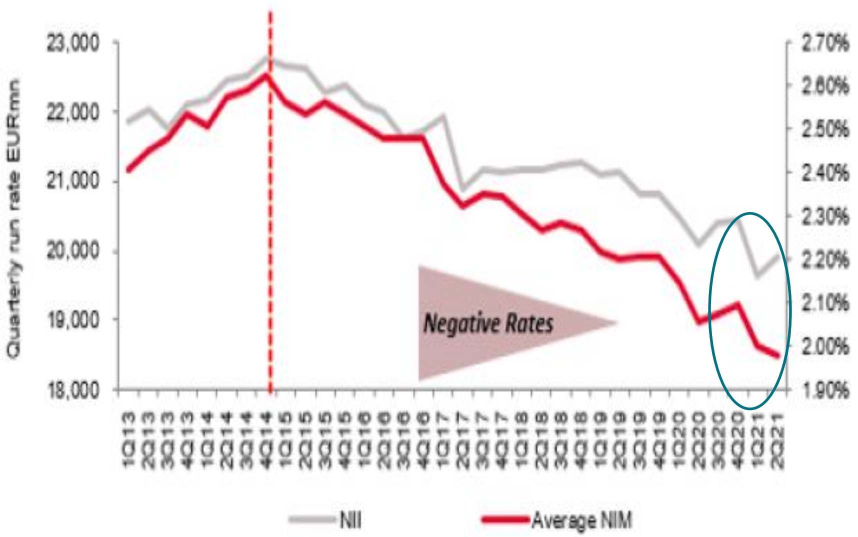
Source: AXA IM, Bloomberg, Barclays and BofAML Indices as at 15 October 2021. For illustrative purpose only.

Banks

Satisfactory Q2 results

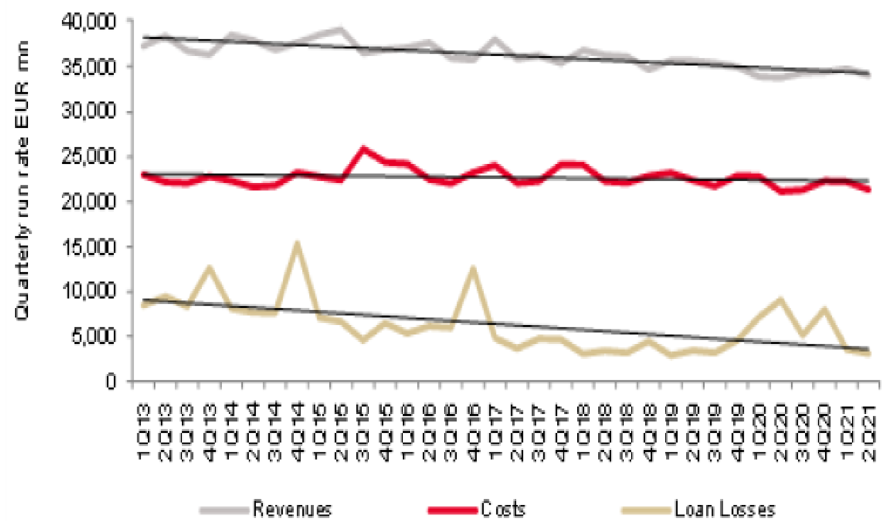
- European banks earnings have beat consensus by a wide range thanks to lower impairments, but also thanks to better core revenues including net interest income (NII) on the back of better economic outlook. Several banks posted a solid annualized ROE close to 10%
- Indeed, core revenues have been supported by higher fees (AM) and increased capital market revenues (largely from equity sales & trading and M&A). Also, we expect pressure on NII to loosen in next quarters with looming prospect of timid growth:
  - ✓ Current green shoots rely on temporary boost from TLTRO3/tiering
  - ✓ But return to sustainable NII growth will require volume expansion, steeper yield curves and higher short-term rates

Eurozone retail aggregate NII and NIM



Source: SG Cross Asset Research/Equity

Eurozone Banks: revenue, costs and loan losses



Source: SG Cross Asset Research/Equity

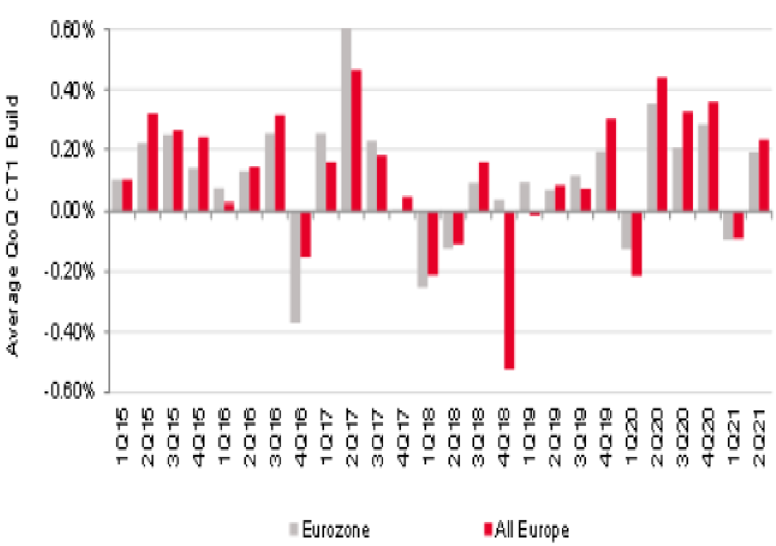
Source: SG Cross Asset Research, September 2021

Banks

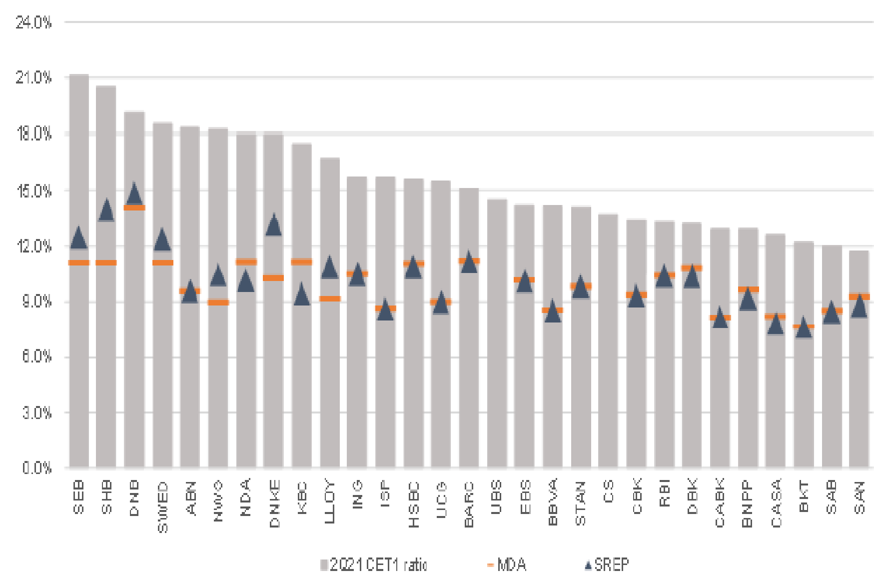
Steady capitalization

- Asset quality remains satisfactory while banks continue to convey a reassuring message as to performance of loans post moratoria. Proportion of loans under moratoria has significantly declined in all countries, except in Portugal where the level remains elevated (15-20%).
- European banks capital ratios continued to show strong capitalization with higher CET1 ratios qoq, fueled by better-than-expected earnings generation. Indeed, capitalization stands at record high level, but a decline is set to gain traction into 2022 on rising pay-outs/use of excess capital, especially after the lifting of the restrictions.

European Banks CET1 build up qoq



European Banks CET1 vs Regulatory Requirement



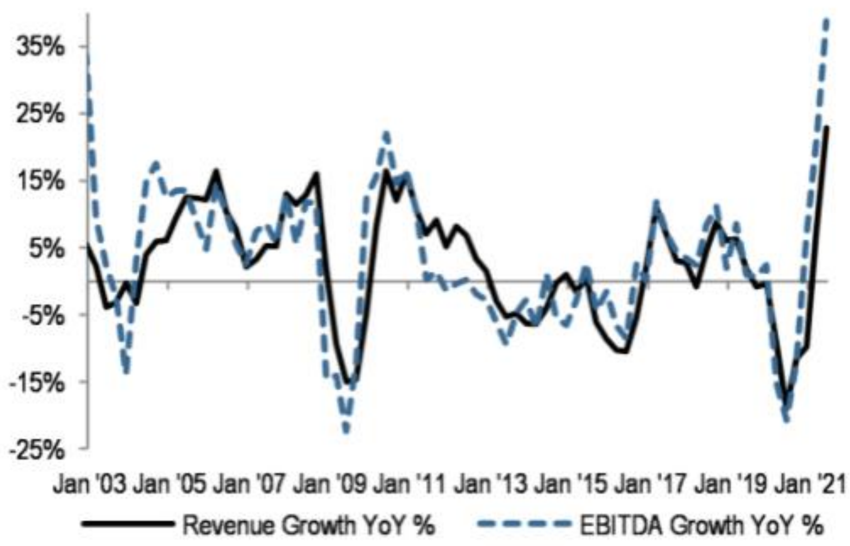
Source: SG Cross Asset Research, September 2021

Corporates

Still on track

- In the second quarter, revenues and Ebitda grew by +22.5% and +38.8% yoy respectively driven by the gradual lift in restrictions and easy comparables. This implies that margins continue to expand despite rising raw material prices, supply chain issues and freight costs notably. This shows the continuing focus on cost discipline from Corporates.
- The reopening of the economies has fueled a faster-than-expected balance sheet recovery. With better earnings and higher cash-flow generation leverage came down “passively”. On average, net debt to Ebitda ratio was down by 0.2x to 3.2x.

European IG Revenue and Ebitda growth



Net leverage has improved

Source: JPM Research, Bloomberg, September 2021

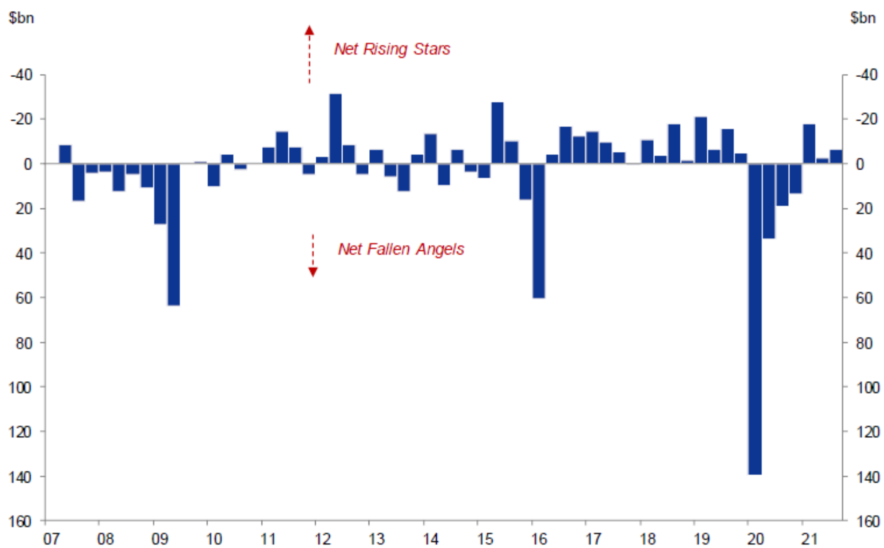
Investment Managers

Corporates

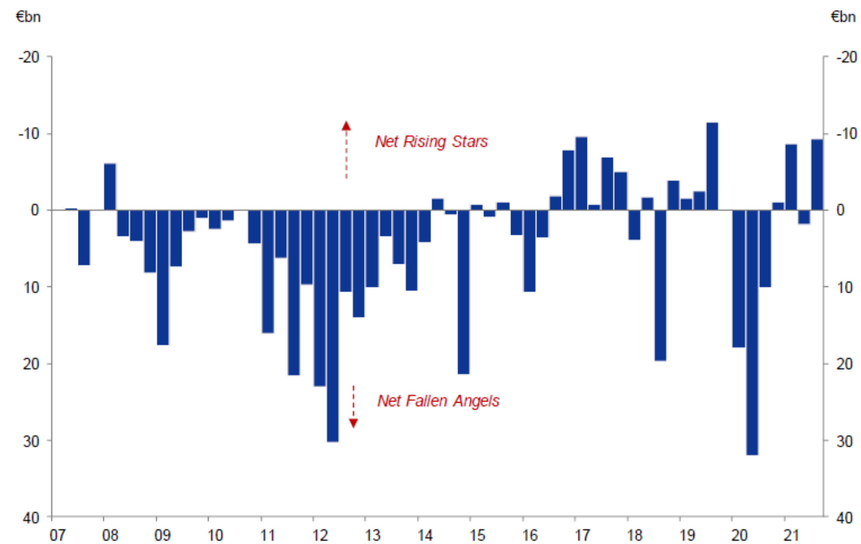
Ratings risk is largely behind

- After a tough 2020, ratings trends are improving with several upgrades in the investment-grade universe (Daimler, Air Liquide, Svenska, AstraZeneca, Arcelor, Aeroporti di Roma…).
- The trend in rising stars is also positive with upgrade of Fiat, The Mosaic Co, Celanese, LyondellBasell, Arcelor, AKER BP, Becton Dickinson, Smurfit Kappa. There has been no fallen angel since the beginning of the year.

Positive momentum in ratings migration in the US…



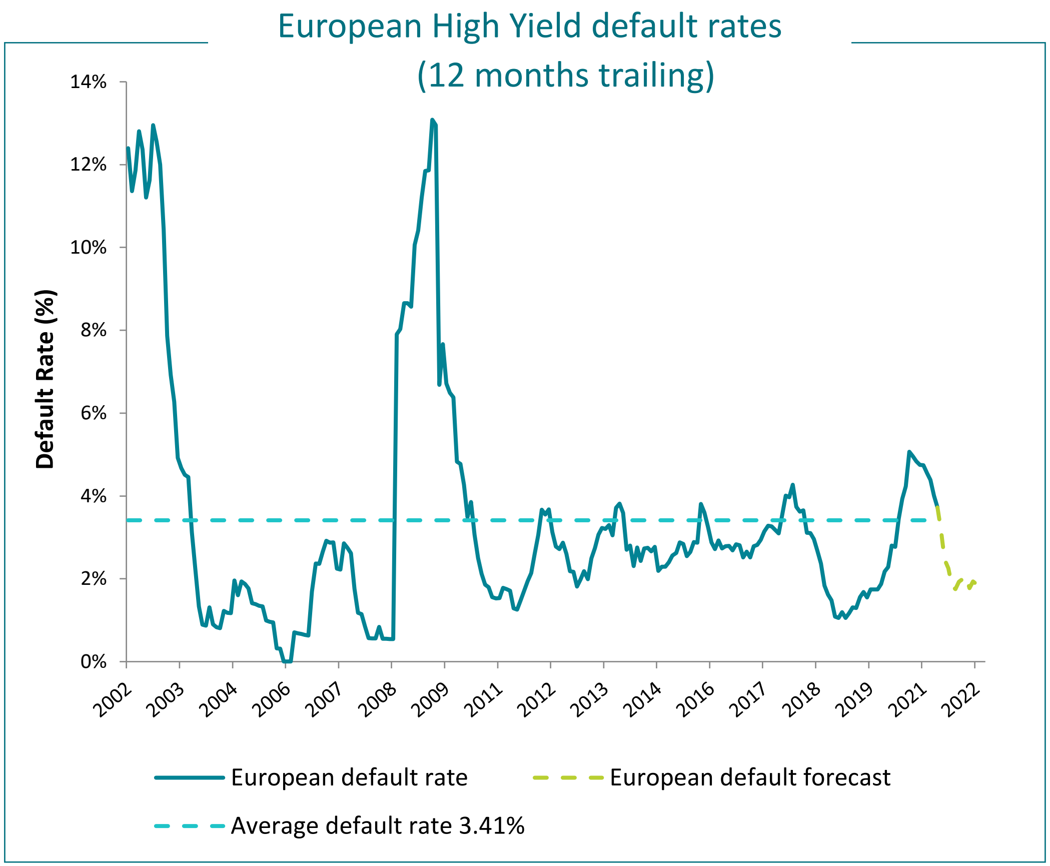
… and in Europe



Source: Goldman Sachs, September 2021

Macro

European High Yield corporate bonds default rates



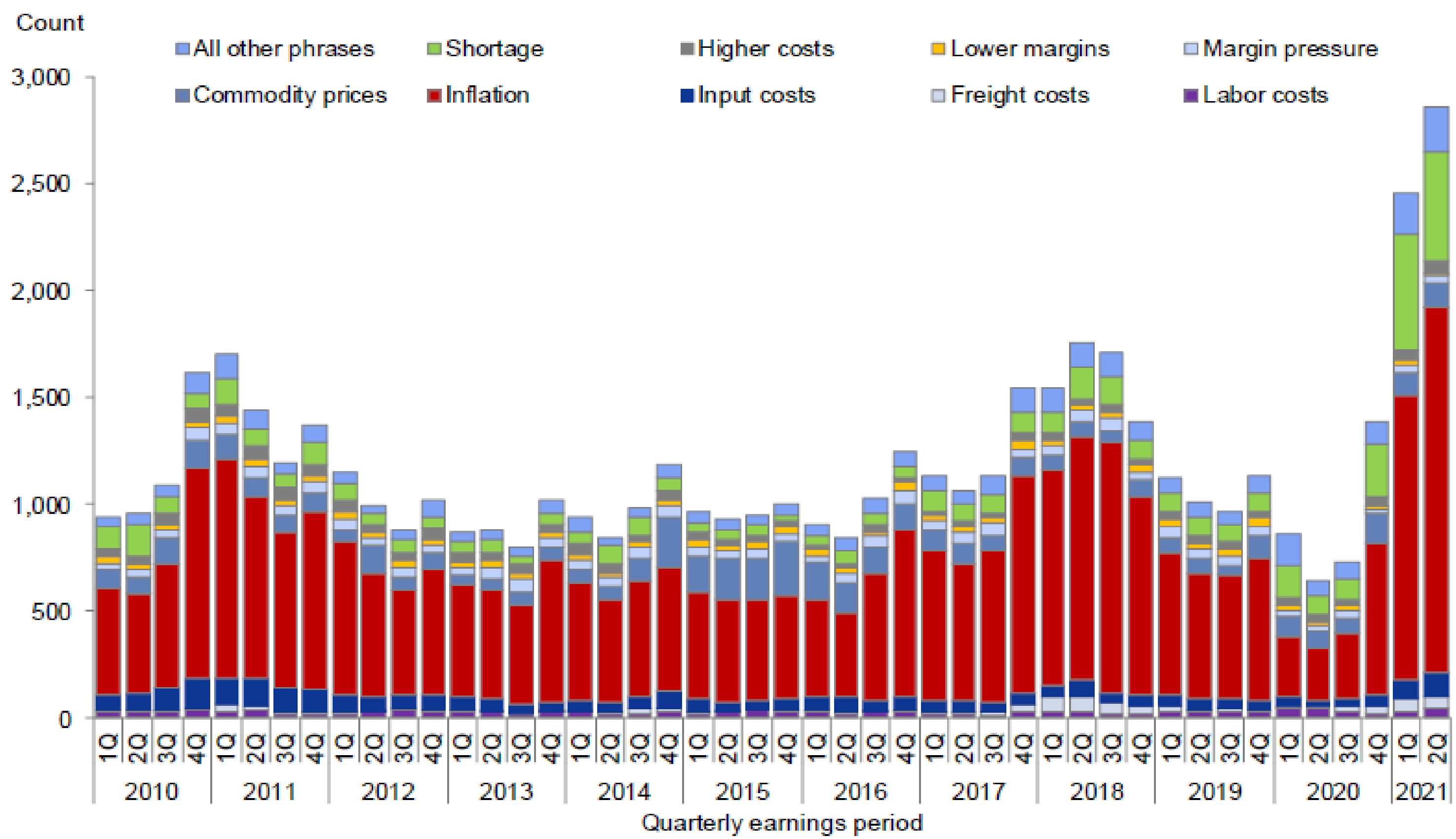
- Despite significant disruption in the market, realised default levels remained remarkably low in the fallout from the Covid pandemic
- Defaults levels are expected to fall back below their long-term average as the effects of the virus subside and economic growth picks up

End of the default cycle in European High Yield

 Source: Default data from Moody's as at July 2021. Historical data is shown since December 2001.

Inflation remains a strong topic for managements

Number of word occurrences in IG-rated companies during calls and/or presentations

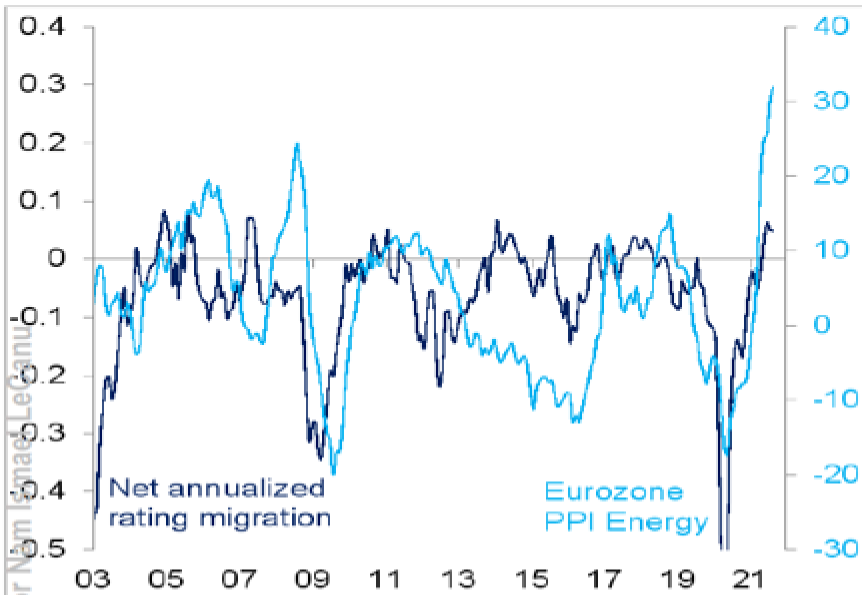


Rating migration has improved with rising energy prices in the past

But a supply side shock is maybe different…

- Counter intuitively, rating migration has improved with rising energy prices in the past. It is likely due to a link with growth.
- A shock emanating from the supply side is different. When energy prices rise faster than broad producer prices, growth expectations generally fall.

Decent correlation with energy prices



Source: Citi Research, Bloomberg, Moody's, S&P, Fitch.
Non-financial, severity-adjusted, 3m annualized moving average.

But a supply shock to energy prices is different

Source: Citi Research, Bloomberg.

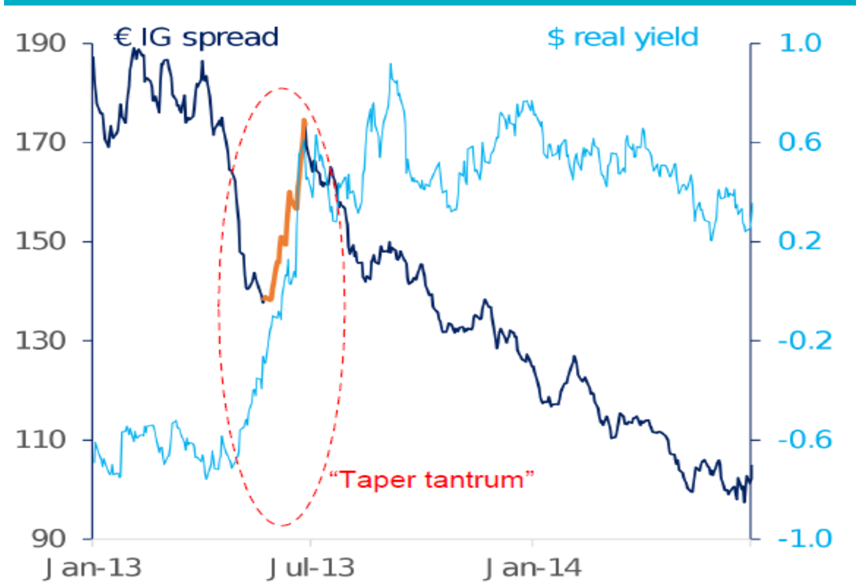
Source : Citigroup, October 2021

What might be the impact of the "reflation trade" on the Credit Market

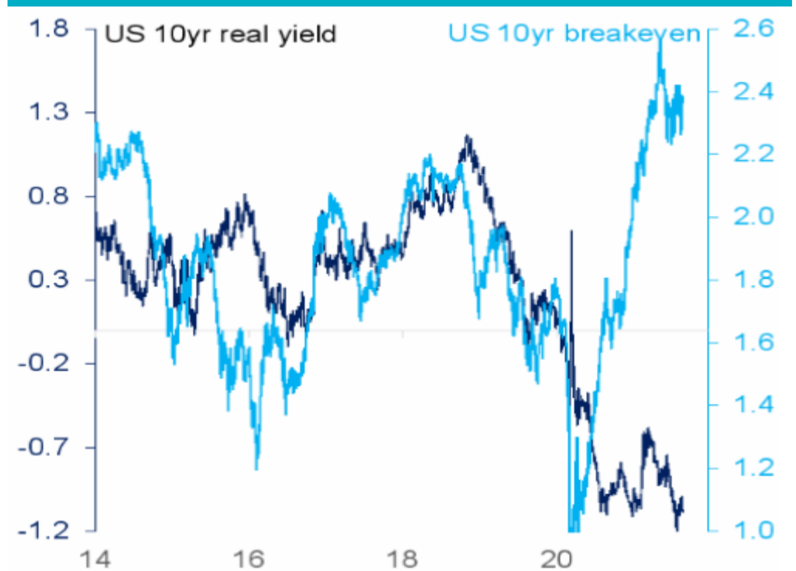
So far, the market was extremely resilient , but higher real yield could eventually lead to wider spreads

- Whilst the relation between nominal yield and credit, specifically in euro looks "not simple", higher real yields tend to lead wider spreads
- Poor $ returns has led outflows in the past for US IG, however in Euro IG the return don't lead flows, the ALM bid remain strong, and the ECB is a key support.
- The taper tantrum episode suggest yield driven widening is temporary

2013 taper tantrum was speed bump for € Credit



US 10yr real yield vs inflation BE %



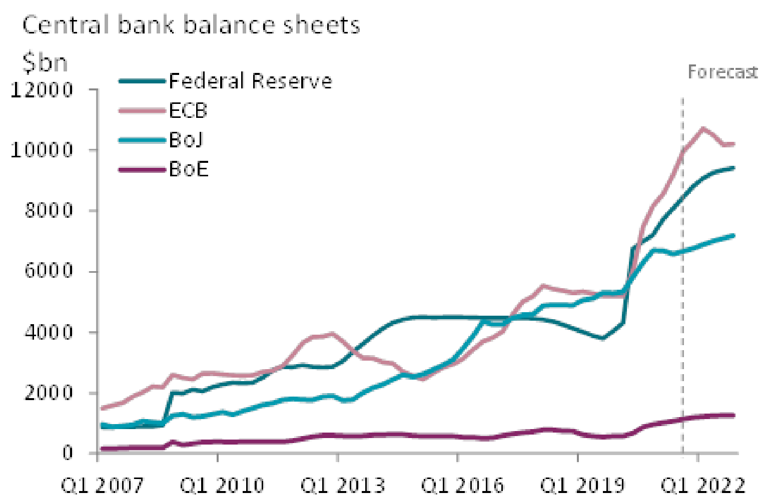
Source: Citigroup March 2021

Central Banks

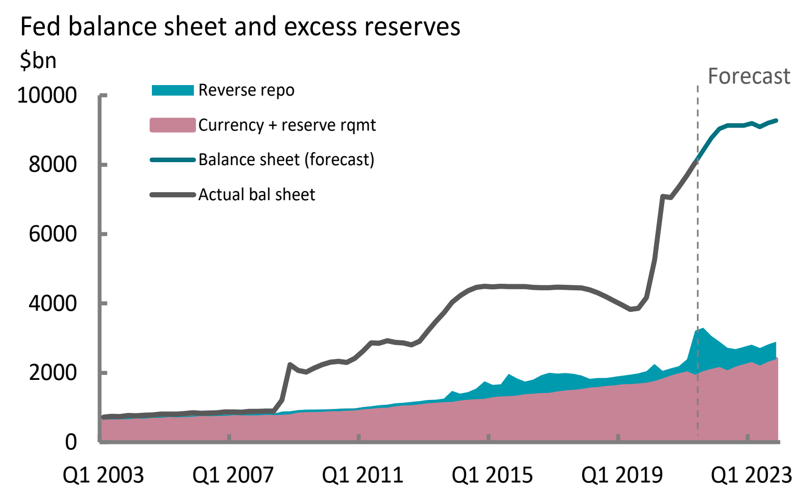
Normalisation will start in the US, but in a slow mode

- Fed Chair Powell suggested at Jackson Hole that the Fed's outlook for the timing of a taper could be moving closer, but we still expect an announcement in December and a start in January 2022. Regarding rates hikes, we forecast the first hike in the Fed Funds Rate for June 2023, with a further hike expected in December 2023 (to 0.5-0.75%).
- In Europe, monetary policy is expected to remain sufficiently accommodative. In the last meeting, the Governing Council agreed to reduce the net purchases of PEPP at a "moderately lower pace than in the previous quarters"" and postponed all major decisions in December. The ECB has justified its decision by favorable financing condition and inflation outlook. ECB unveiled its update on macroeconomic projections: GDP outlook has been upgraded to 5% (+0.4pp) in 2021 and 4.6% (-0.1pp) in 2022, while CPI projections have been revised up to 2.2% in 2021 and 1.7% in 2022.

Central Banks Balance Sheets will start normalising



The first mover should be the Fed



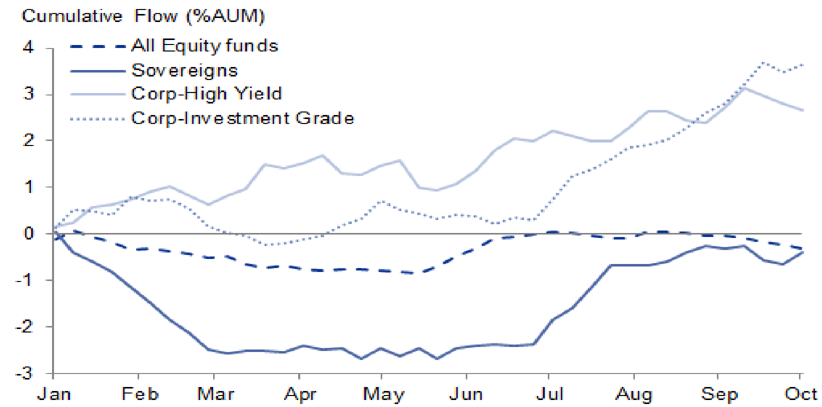
Source: AXA IM Research, September 2021

Technicals

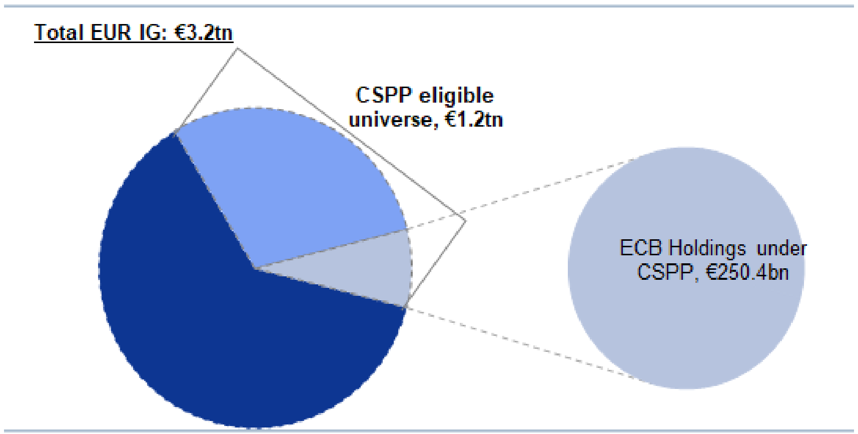
The support should continue in 2021

- The primary market was less dynamic in 2021 vs 2020, leading to a small positive net supply
- On the ECB front, the pace of purchase will remain elevated for the rest of the year.
- Corporates are sitting on massive precautionary liquidity cushions and do not have material financing needs.

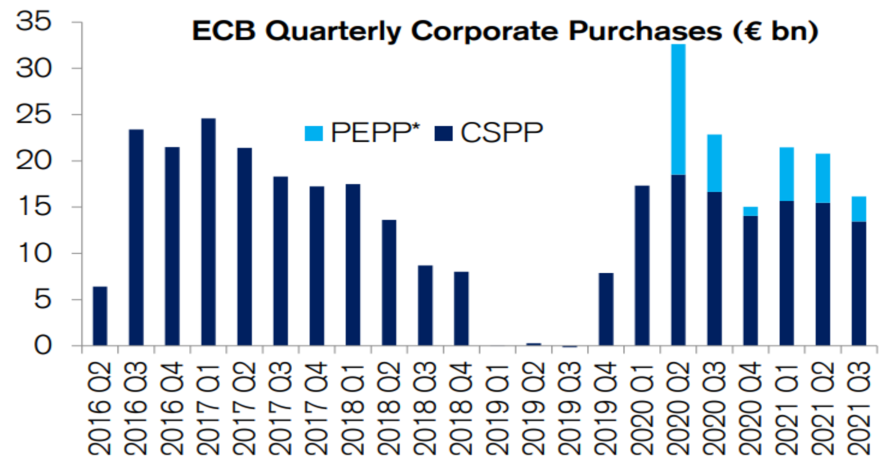
EUR Cumulative flows as % of AUM



Putting the CSPP and PEPP holdings in context



ECB Corporate Bond Purchases



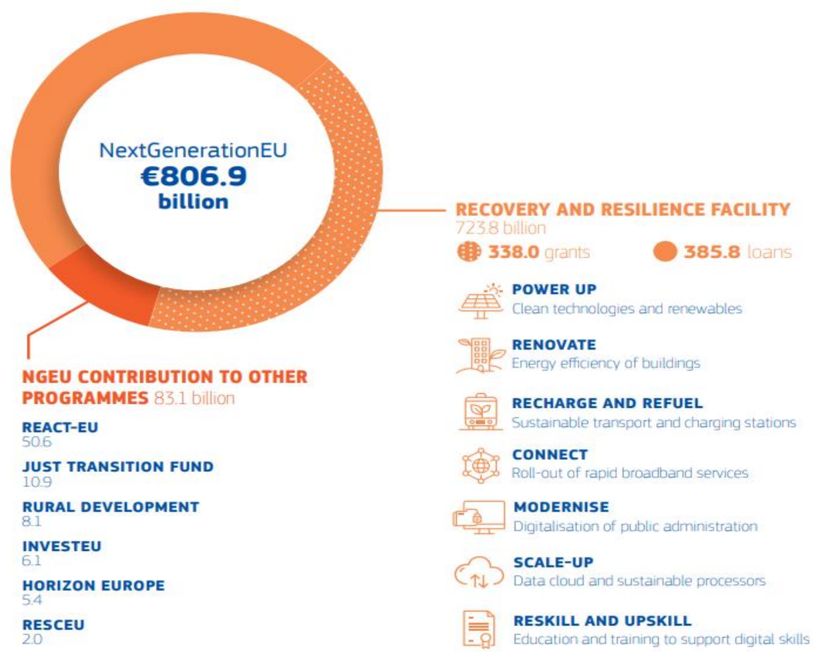
Source: BofA Merrill Lynch, Credit Suisse, October2021

Next Generation EU 101

How much?

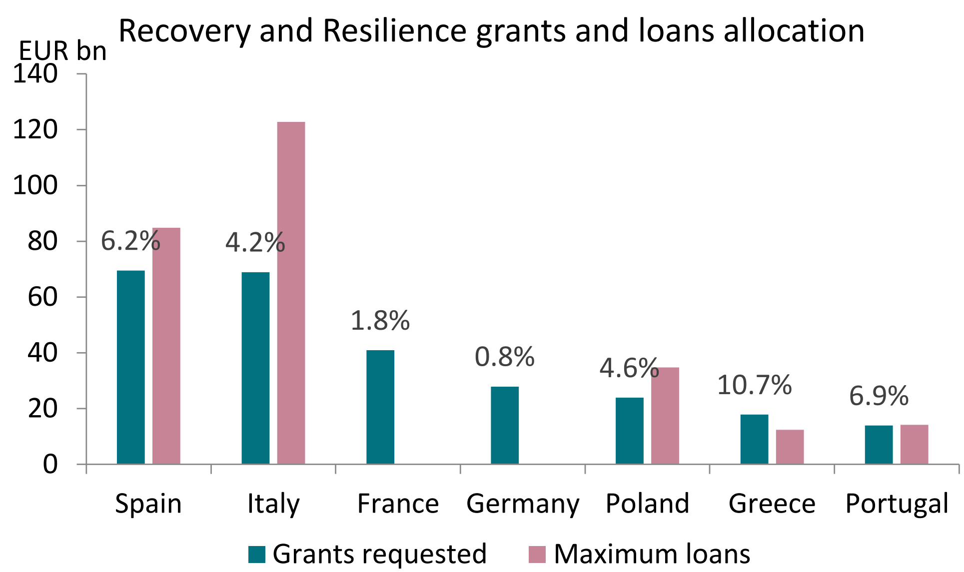
- NGEU is a temporary recovery instrument worth €750 billion in 2018 prices or some €800 billion in current prices.
- The centrepiece of NGEU is the Recovery and Resilience Facility - an instrument to offer grants and loans to support reforms and investments in the EU Member States with a total value of €723.8 billion in current prices.
- Grants allocation depends on population, the inverse of the GDP per capita, the relative unemployment rate of each Member State, change in real GDP in covid time. Loans (voluntary basis) cannot exceed 6.8% of 2019 GNI.

Recovery and Resilience Facility is the centerpiece of NGEU



Source: : EC, AXA IM Research, June 2021

Supporting Southern and Eastern economies



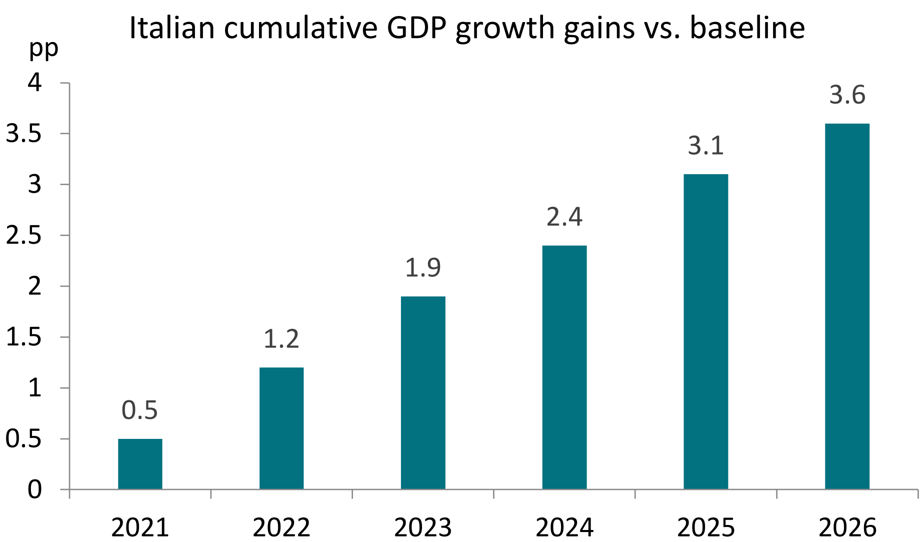
Source: EC, AXA IM Research, June 2021. Note: % refer to grants as % of GDP.
Germany and France to not use loans, c. €170 AND 240bn, resp.

Recovery and Resilience plans under scrutiny

Italy: The right ingredients- still usual political risks

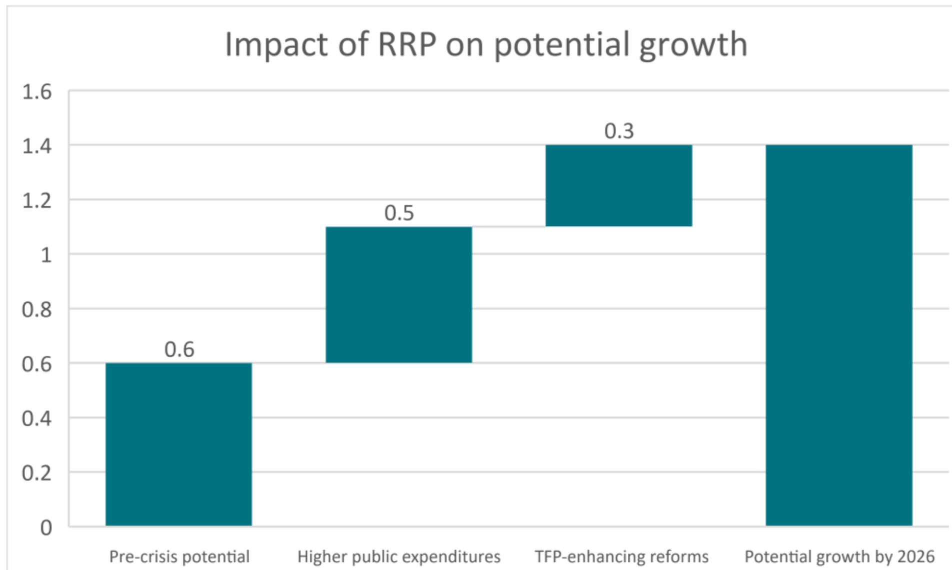
- Italian government sees GDP impact at 3.6pp cumulative in 2026: assuming 0.4 fiscal multiplier is rather cautious
- Potential growth to be boosted by 0.8pp: fundamental for Italian debt sustainability
- But this relies on reform implementation and prompt fund absorption: Draghi rightly frontloaded the reform agenda, but usual political instability could trigger delays/partial disbursements.

A significant growth boost, assuming total fiscal firepower…



Source: Italy RRP, AXA IM Research, June 2021.

Capital deepening, structural reforms and potential growth



Source: Italy RRP, AXA IM Research, June 2021.

Portfolio characteristics & track record

AXA WF Euro Credit Total Return

Key messages

Portfolio characteristics

- Euro Credit **unconstrained**[1] offer launched on February 2015 to accommodate to a more challenging market environment
- Exploiting the full euro credit universe with an extensive leeway on **Investment Grade** and **High Yield** allocation (up to 50%)
- Flexible management of **Duration** risk (-2 to 6 years)
- **High Conviction** positioning
- **Investment Grade** quality portfolio (BBB-)
- Combination of **Top-down management approach** with **Tactical allocation** across identified risk buckets and return drivers
- In the first decile in its **Morningstar** peer group over 3 Years and 5 Years [2]

MORNINGSTAR®
★★★★★

Source: AXA IM as at 30/09/2021 (1) The fund is unconstrained by a benchmark. (2) Morningstar: as of 30/09/2021 - EUR flexible bond universe. The figures provided relate to previous months or years and past performance is not a reliable indicator of future performance. The references to league tables and awards are not an indicator of the future places in league tables or awards and such information is necessarily evolutionary. These are internal guidelines which are subject to change without notice. Please refer to the prospectus for the fund's full investment guidelines and risks.

AXA WF Euro Credit Total Return

Enhanced market segmentation

	MARKET SEGMENTATION	KEY CHARACTERISTICS
Defensive	▪ Cash Equivalent ▪ Senior Financial Core ▪ Senior Corporate Core	Defensive High Liquidity Low Volatility
Intermediate	▪ Senior Financial Periphery ▪ Global Corporate IG ▪ Senior Corporate Periphery	Recovery and Convergence assets Medium carry Average volatility
Agressive	▪ Corporate High Yield ▪ Corporate Hybrids ▪ Financial Subordinated	Specific value stories High carry Medium to high volatility

Risk monitoring

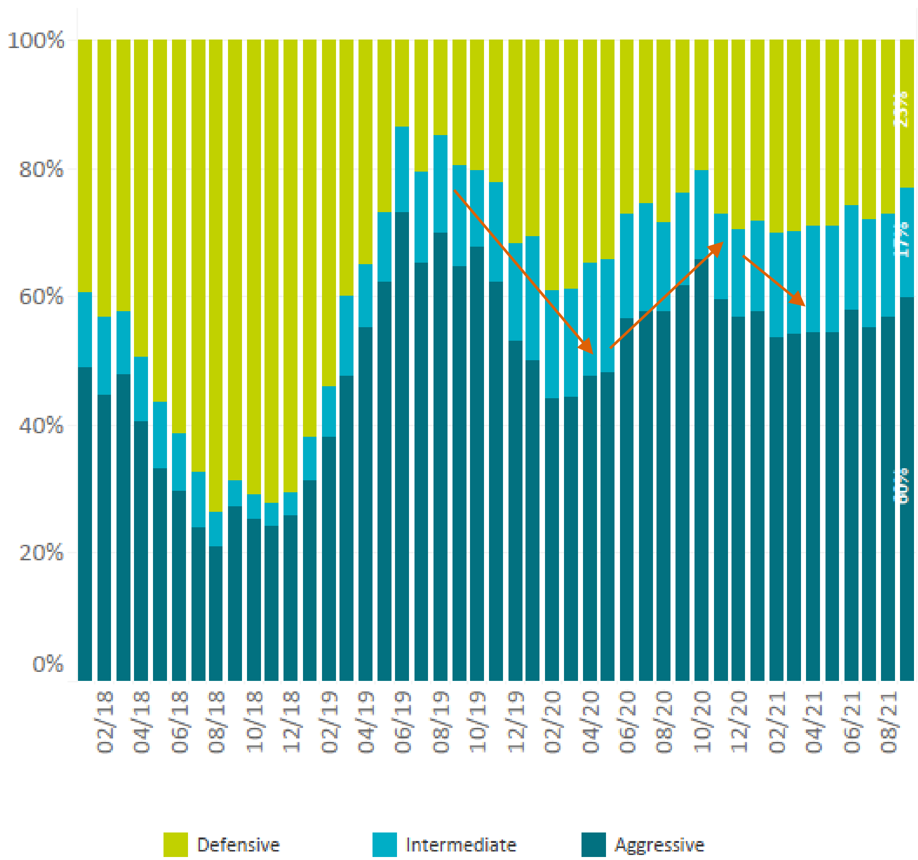
- High Yield limited to 50%
- Min rating investment at B-
- Only rated and public issuances
- No currency risk
- Derivatives: up to 100% of NAV – Interest futures and Itraxx indices essentially

Source: AXA IM. These are internal guidelines which are subject to change without notice. Please read the prospectus for the fund’s full investment guidelines and risks.
For illustrative purposes only
The fund is unconstrained by a benchmark. The reference currency of the fund is EUR. The hedging performed by State Street is 95% hedging.

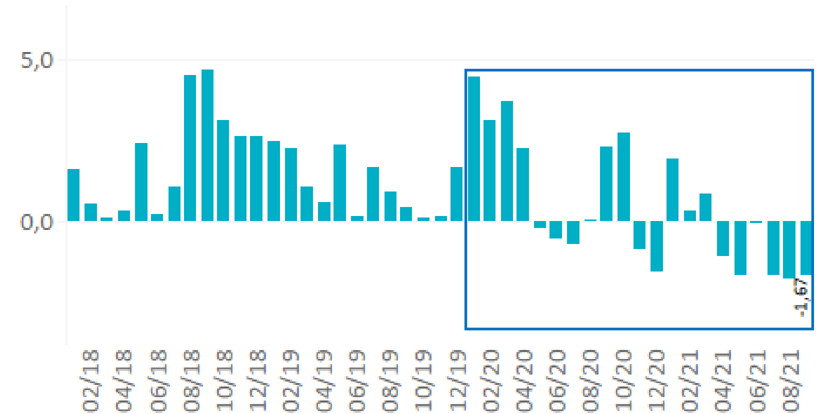
AXA WF Euro Credit Total Return

Our investment views in action - Bucket Allocation

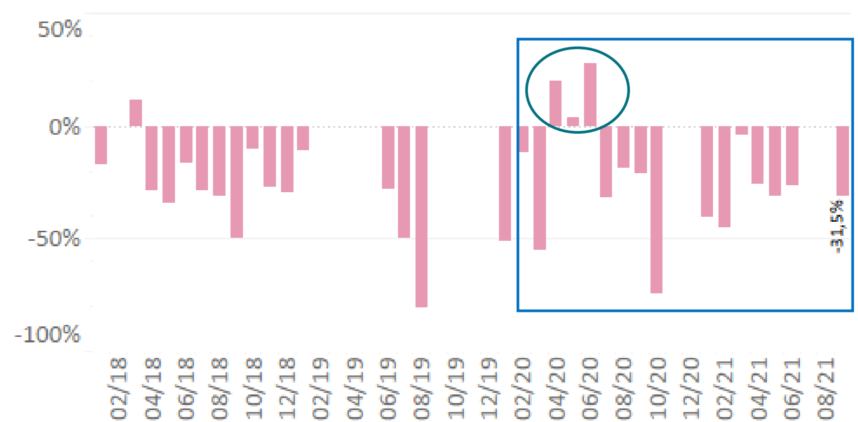
Historical Bucket Weigth Allocation



Duration Evolution



CDS exposure



Source: AXA IM, Synview as at 30/09/2021. For illustrative purpose only. These allocations are subject to change at any time at the discretion of the portfolio management team. Data is unaudited and sourced from our front office portfolio management system Synview. Calculation of High Yield is based on an average linear rating. Data based on AXA WF Euro credit Total Return I EUR share class.

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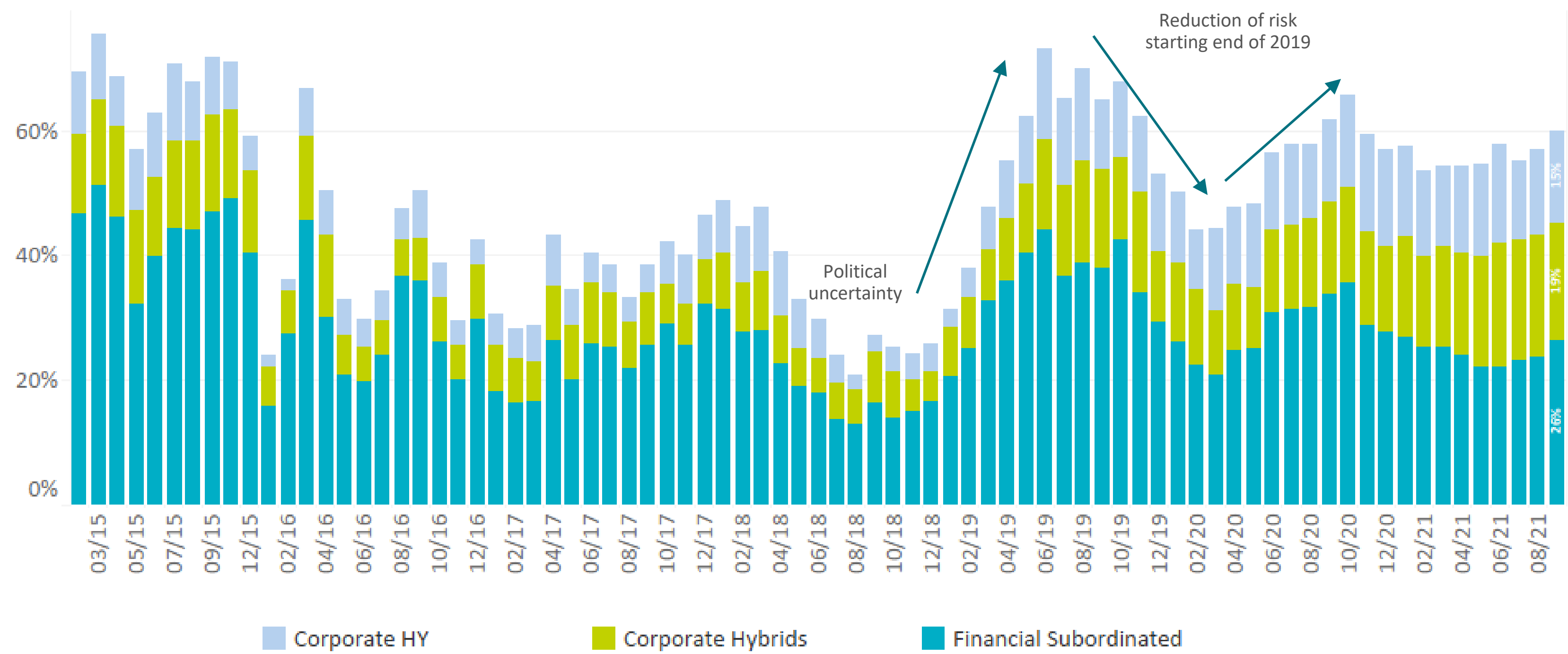
AXA WF Euro Credit Total Return

Our investment views in action - Financial and Corporate Evolution

Corporate and Financial Historical Weight Allocation



Source: AXA IM, Synview as at 30/09/2021. For illustrative purpose only. These allocations are subject to change at any time at the discretion of the portfolio management team. Data is unaudited and sourced from our front office portfolio management system Synview. Data based on AXA WF Euro Credit Total Return – I Eur share class.

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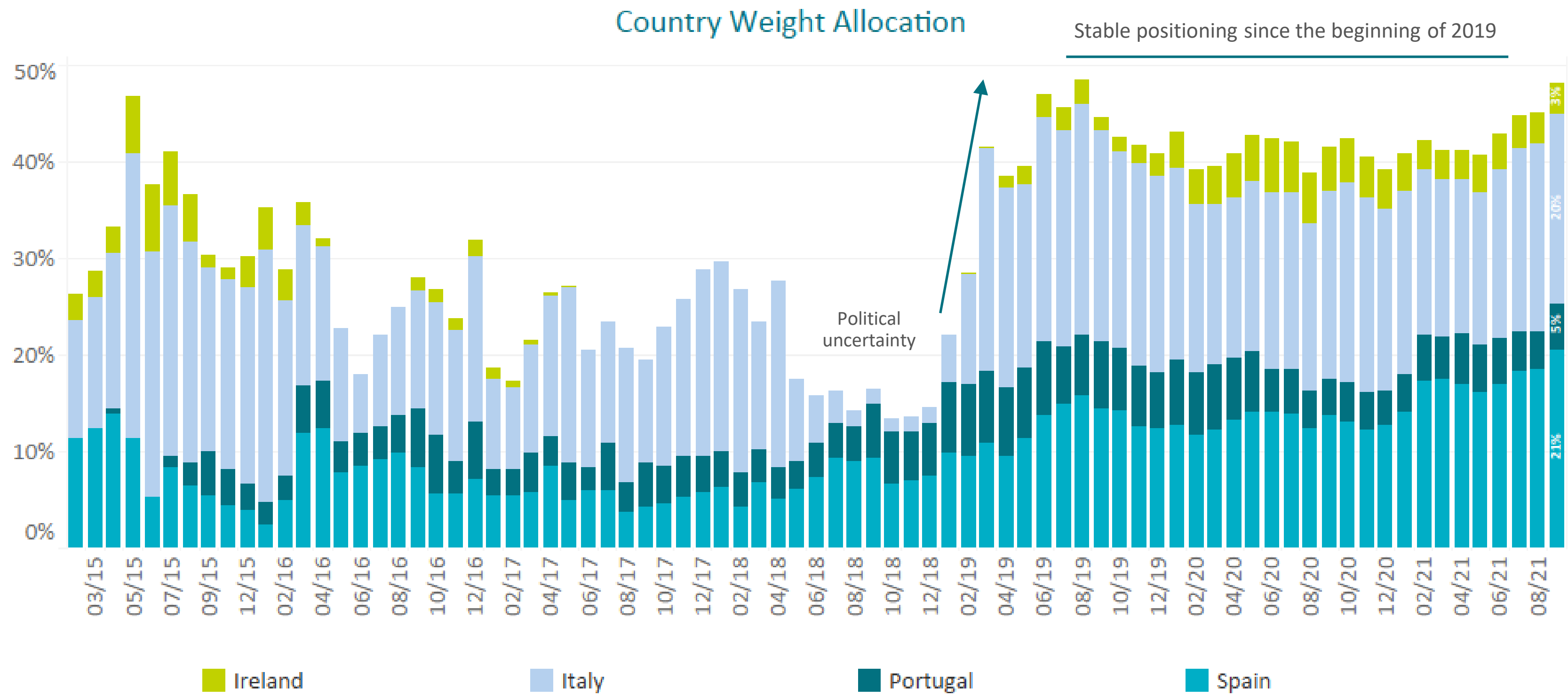
AXA WF Euro Credit Total Return

Our investment views in action - Peripheral exposure



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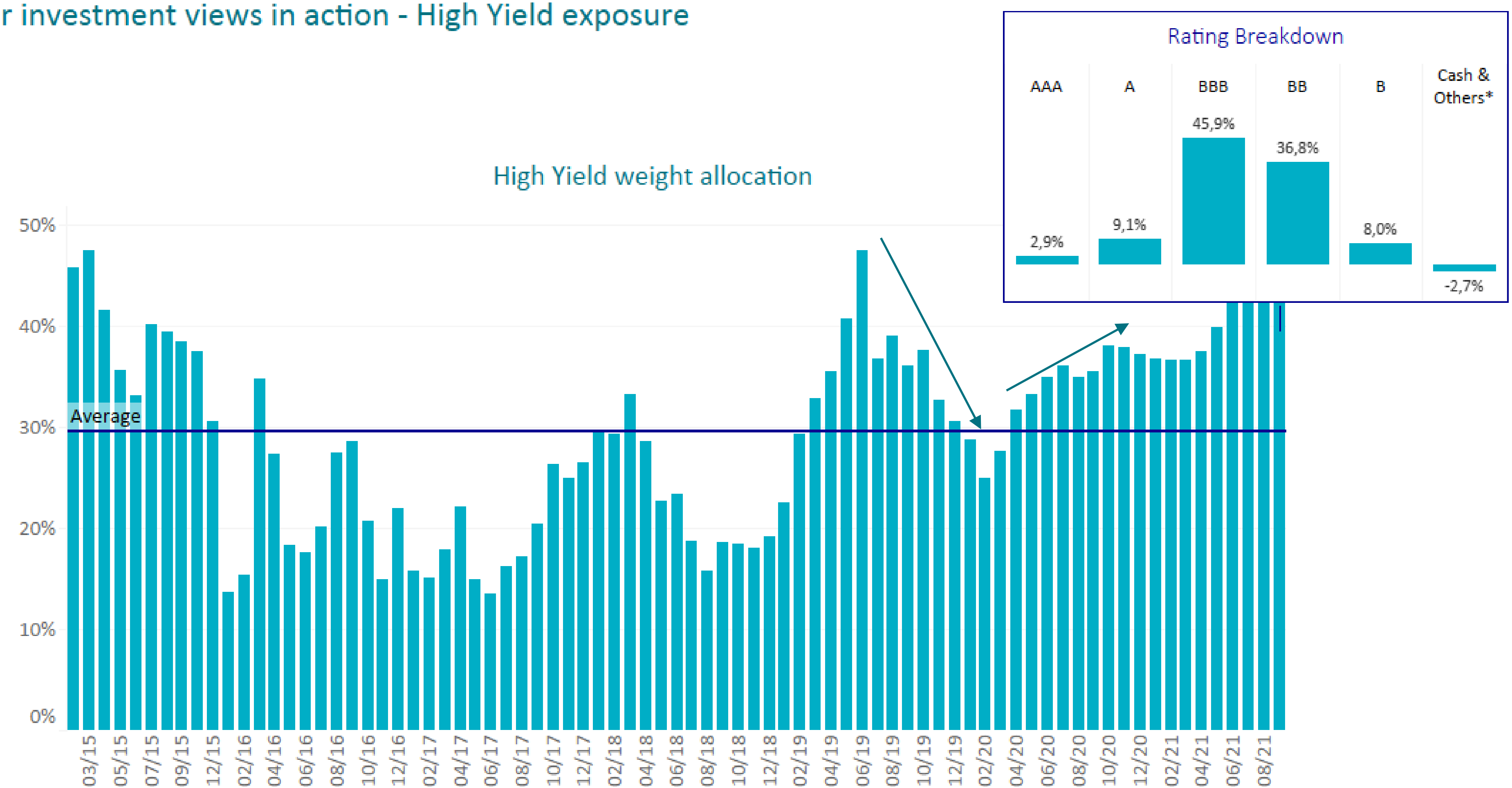
AXA WF Euro Credit Total Return

Our investment views in action - High Yield exposure



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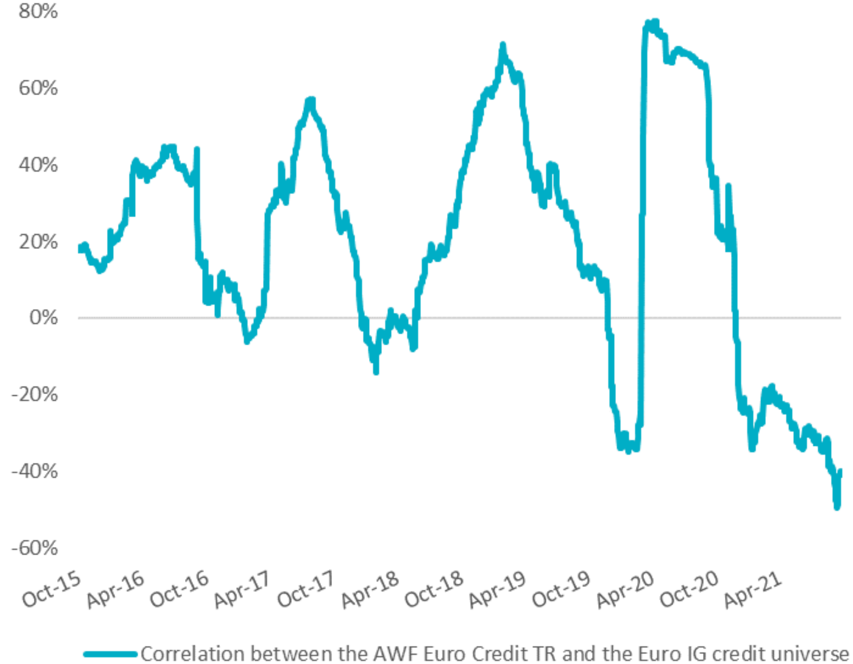
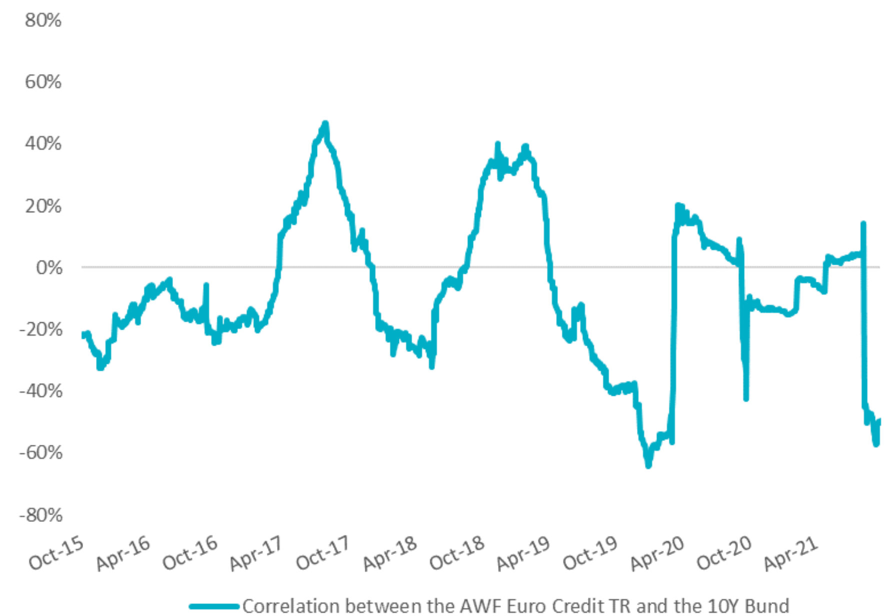
AXA WF Euro Credit Total Return

A profile that is decorrelated over time, both in terms of the credit market and interest rates

Correlation with the Euro Credit Investment Grade market



...and with the Bund



Source : AXA IM, Bloomberg as at 30/09/2021

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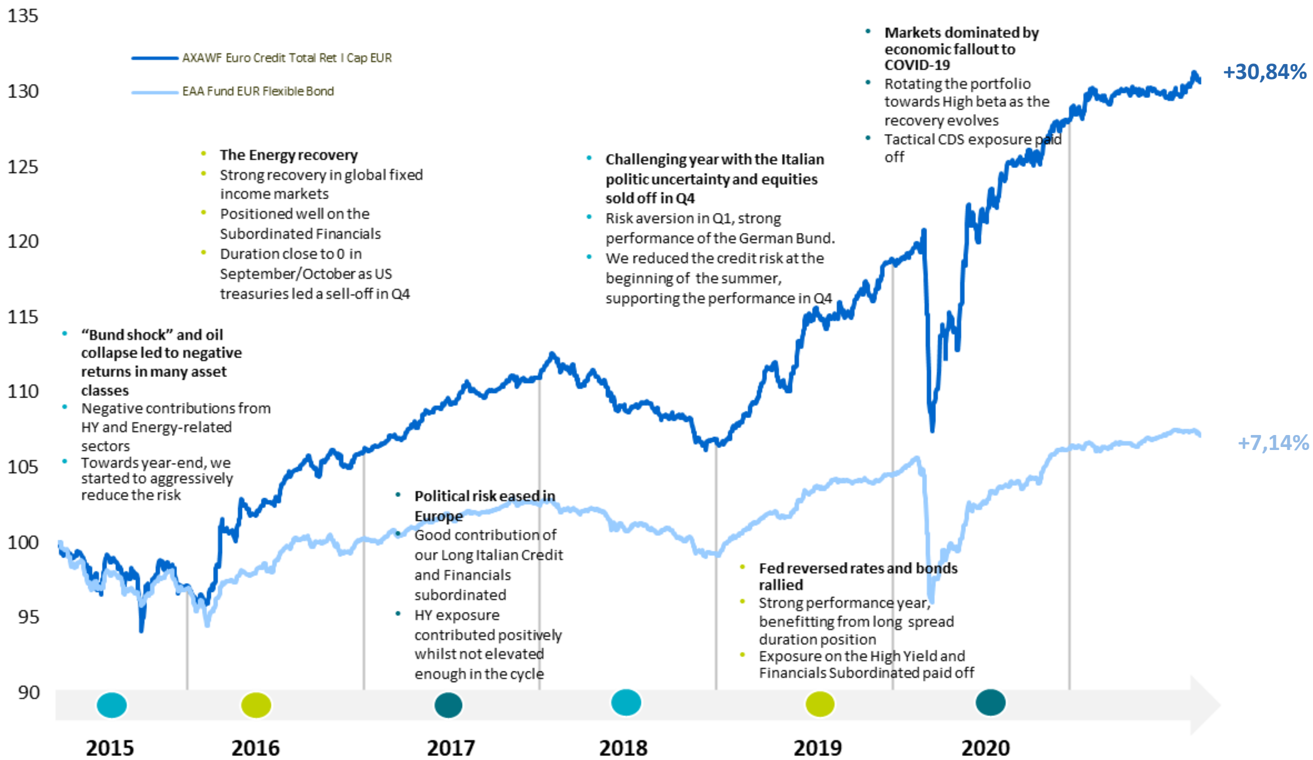
AXA WF Euro Credit Total Return

Outperformance against Morningstar category EAA Fund EUR flexible Bond



Net Perf.	AWF Euro Credit Total Return I Cap EUR	Average Morningstar Category
YTD	2,16%	0,91%
2020	7,72%	1,68%
2019	11,26%	5,15%
2018	-3,72%	-3,09%
2017	4,70%	2,24%
2016	9,13%	3,44%
SL	30,84%	7,14%

Max Gain	39,49%	13,73%
Max Drawdown	-11,11%	-9,12%
Max Drawdown Recovery	72 days	245 days

Source: AXA IM, Net performance I EUR as at 30/09/2021, Morningstar. The fund was launched in February 2015. References to rankings and awards are not an indicator of future rankings or awards. The information contained in this document may be updated from time to time. The information contained in this document may differ from previous or future versions of this document. Past performance is not a reliable indicator of future performance.

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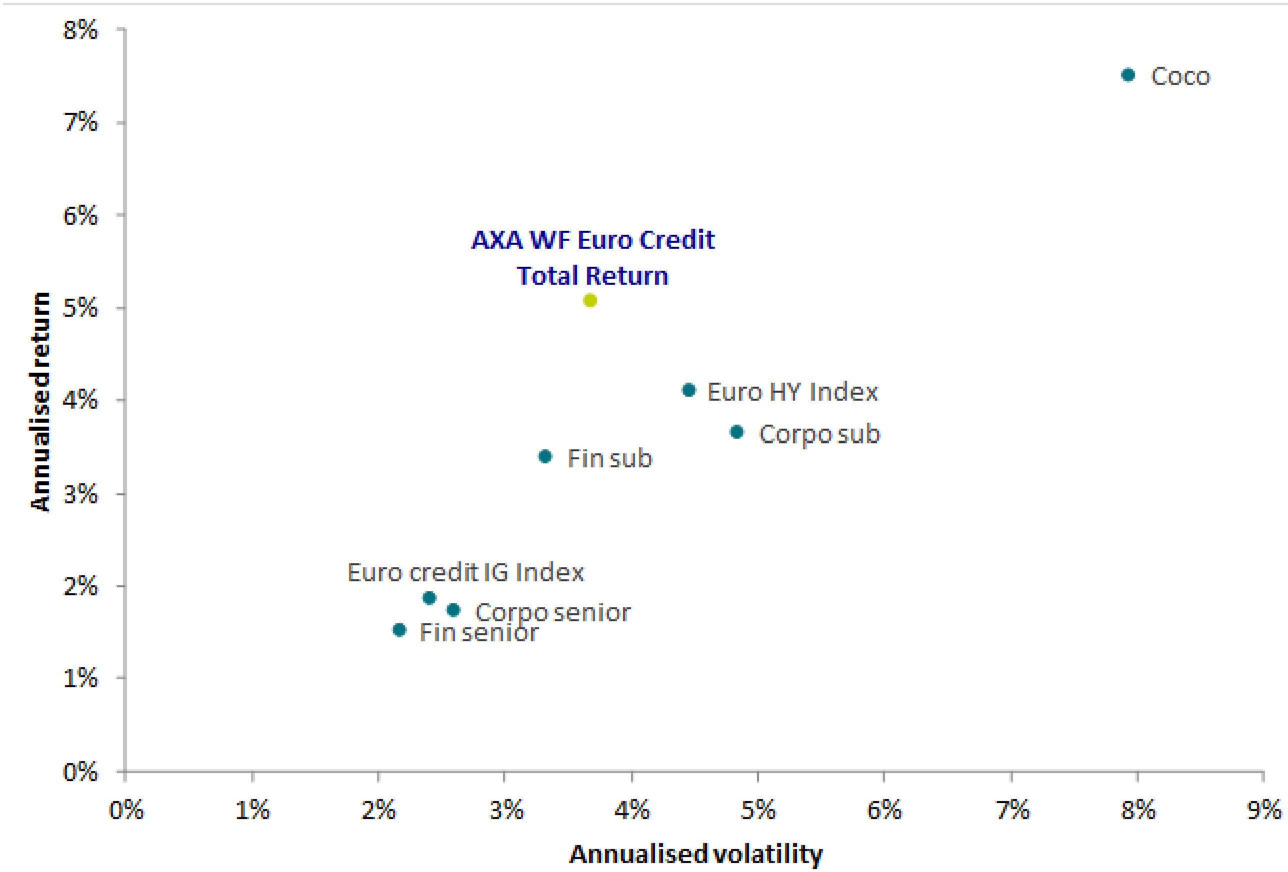
AXA WF Euro Credit Total Return

Risk-return profile versus fixed income asset classes since launch



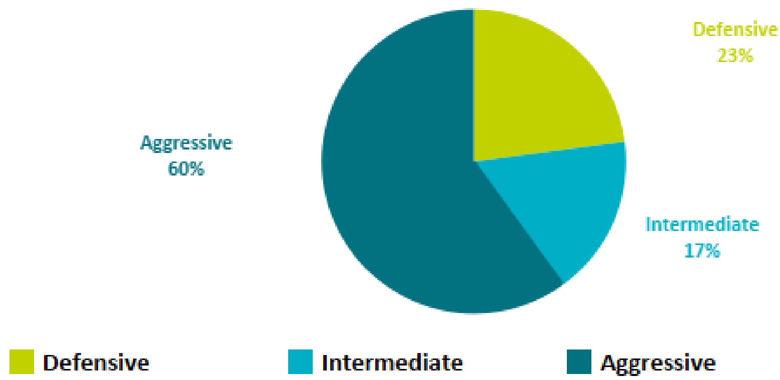
Source : AXA IM, Bloomberg. Annualized return and volatility from 25/02/2015 to 30/09/2021, based on daily returns. AXA WF Euro Credit Total Return is compared to the 7 main asset classes that the fund invests in. AXA WF Euro Credit Total Return – Gross performance – launch of the fund 25/02/2015. M EUR Shareclass from 25/02/2015 to 10/04/2015 and then I EUR share class. M EUR share class is not opened to all investors; it can be subscribed with the prior approval of the Directors only. Past performance is not a guide to future performance.

AXA WF Euro Credit Total Return

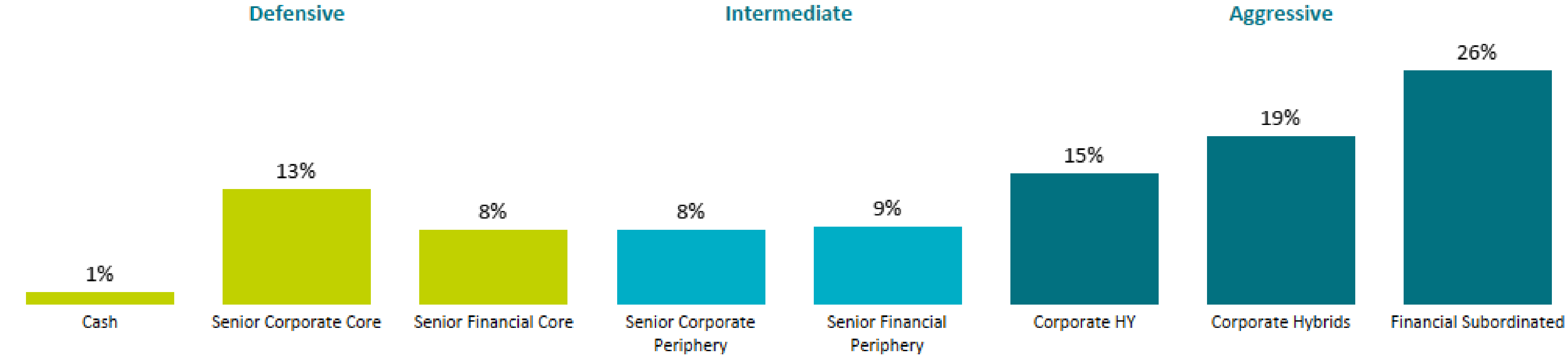
Current Positioning

Key Characteristics	
AUM (M€)	363
Duration	-1,67
Spread Duration (years)	4,75
Yield to Worst	1,54%
ASW	176
Number of Issuer	122
Average Linear Rating	BBB-
High Yield	45%

Bucket Allocation



Asset Class Allocation



Sources: AXA IM, Synview as at 30/09/2021. The characteristics mentioned above are indicative only and may be modified without notice. They are provided for information purpose only. Yields are not guaranteed and will change in future. Cash & Equivalents includes government bonds. Average linear rating of the three agencies: Fitch, Moody's and S&P. Data based on AXA WF Euro Credit Total Return – I Eur share class.

AXA Investment Managers

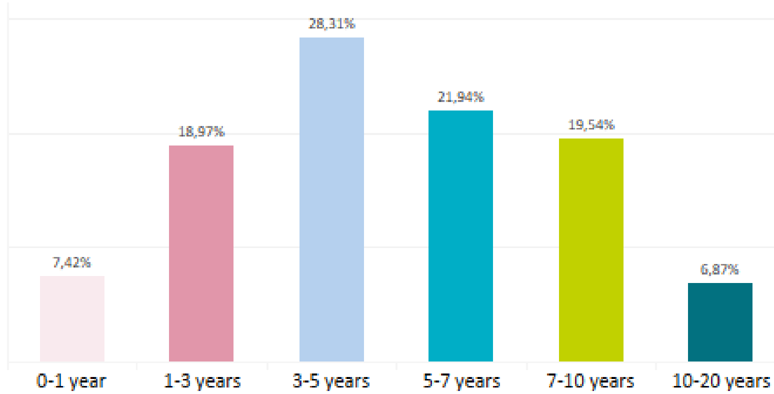
AXA WF Euro Credit Total Return

Current Positioning

Sector Breakdown

Sovereign	Sovereign	2,90%
Utility	Utility	8,85%
Financial	Banking	32,48%
	Insurance	9,31%
	Financial Services	3,73%
Industrials	Real Estate	9,03%
	Energy	8,07%
	Telecommunications	6,38%
	Transportation	5,03%
	Basic Industry	2,77%
	Capital Goods	2,58%
	Healthcare	2,43%
	Automotive	1,94%
	Media	1,61%
	Services	1,31%
	Retail	1,16%
	Technology & Electronics	1,14%
	Leisure	0,70%
cash	Cash	0,46%
Null	Null	-3,78%
FX	.FX	0,02%
Pfd-Financial	Pfd-Banking	1,12%
Securitized	Asset Backed	0,76%

Maturity Breakdown for Bonds



Top 10 Issuers

1	UniCredit SpA	3,70%
2	Banco de Sabadell SA	3,54%
3	Bundesschatzanweisungen	2,90%
4	CaixaBank SA	2,83%
5	Repsol International Finance BV	2,45%
6	Telefonica Europe BV	2,42%
7	Deutsche Bank AG	2,38%
8	AIB Group PLC	2,14%
9	Intesa Sanpaolo SpA	2,07%
10	Merlin Properties Socimi SA	1,92%

Sources: AXA IM, Synview 30/09/2021. The characteristics mentioned above are indicative only and may be modified without notice. They are provided for information purpose only. Yields are not guaranteed and will change in future. Cash & Equivalents includes government bonds. Others include the following sectors: Healthcare, Consumer Goods, Capital Goods, and Financial Services. Data based on AXA WF Euro Credit Total Return – I Eur share class.

AXA Investment Managers

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